

CENTRAL FEDERAL CORP
Form PRE 14A
July 01, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

Central Federal Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously.

Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

7000 N. High Street
Worthington, Ohio 43085

_____, 2014

Fellow Stockholders:

You are cordially invited to attend a Special Meeting of Stockholders (the “Meeting”) of Central Federal Corporation (the “Company”) which will be held at J. Liu Restaurant (Worthington Room) located at 6880 N. High Street, Worthington, Ohio 43085, on Monday, September 8, 2014, at 10:30 a.m., local time.

The attached Notice of Special Meeting and Proxy Statement describe the formal business to be transacted at the Meeting. Directors and officers of the Company will be present at the Meeting to respond to any questions stockholders may have regarding the business to be transacted. Attendance at the Meeting is limited to stockholders of record as of the close of business on July 25, 2014, their duly appointed proxies and guests of the Board of Directors and management.

Your vote is very important. Whether or not you expect to attend the Meeting, please read the enclosed Proxy Statement and then complete, sign and return the enclosed proxy card promptly in the postage-paid envelope provided, or follow the procedures on the proxy card to vote your shares electronically, so that your shares will be represented. If you attend the Meeting and are a stockholder of record, or hold a legal proxy from your bank or broker, you may vote in person even if you have previously mailed a proxy card.

On behalf of the Board of Directors, management and all of the employees of Central Federal Corporation, thank you for your continued interest and support.

Sincerely yours,

Timothy T. O'Dell

Chief Executive Officer



CENTRAL FEDERAL CORPORATION

7000 N. High Street

Worthington, Ohio 43085

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be held on September 8, 2014

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders (the "Special Meeting") of Central Federal Corporation (the "Company") will be held at J. Liu Restaurant (Worthington Room) located at 6880 N. High Street, Worthington, Ohio 43085, on Monday, September 8, 2014, at 10:30 a.m., local time, for the following purposes:

- 1.To consider and vote upon a proposal to approve the issuance of shares of the Company's common stock issuable upon the conversion of the Company's Non-Cumulative Convertible Perpetual Preferred Stock, Series B, and the exercise of Warrants as required by and in accordance with NASDAQ Marketplace Rule 5635; and
- 2.To transact such other business as may properly come before the Special Meeting and any adjournment(s) thereof.

Record holders of the common stock of the Company at the close of business on July 25, 2014, are entitled to receive notice of and to vote at the Special Meeting and at any adjournment(s) or postponement(s) of the Special Meeting. A list of stockholders entitled to vote will be available at the Special Meeting and for the ten days preceding the Special Meeting at the Company's headquarters located at 7000 N. High Street, Worthington, Ohio 43085.

Included with this Notice are the Company's Proxy Statement for the Special Meeting and form of proxy card.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Stockholders to be held on September 8, 2014: The Company's Proxy Statement for the Special Meeting and form of proxy card is available at <http://CFBankonline.com/secproxy>.

BY THE ORDER OF THE BOARD OF DIRECTORS

Timothy T. O'Dell

Chief Executive Officer

Worthington, Ohio

_____, 2014

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO ENSURE A QUORUM. PLEASE READ THE ENCLOSED PROXY MATERIALS AND FOLLOW THE PROCEDURES ON THE PROXY CARD TO VOTE YOUR SHARES ELECTRONICALLY, OR SIGN AND RETURN THE PROXY CARD IN THE SELF-ADDRESSED ENVELOPE ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

CENTRAL FEDERAL CORPORATION

7000 N. High Street

Worthington, Ohio 43085

(614) 334-7979

cfbankonline.com

PROXY STATEMENT

FOR THE SPECIAL MEETING OF STOCKHOLDERS TO BE HELD ON SEPTEMBER 8, 2014

INFORMATION CONCERNING SOLICITATION AND VOTING

This Proxy Statement is being furnished in connection with the solicitation by the Board of Directors of Central Federal Corporation (the “Company”) of proxies to be voted at a Special Meeting of Stockholders of the Company (the “Special Meeting”) to be held at J. Liu Restaurant (Worthington Room) located at 6880 N. High Street, Worthington, Ohio 43085, on Monday, September 8, 2014, at 10:30 a.m., local time, and at any and all postponements or adjournments thereof. This Proxy Statement and the accompanying proxy card are being first sent or given on or about _____, 2014 to stockholders of record at the close of business on July 25, 2014.

Your vote is very important. The Board of Directors encourages you to read this Proxy Statement thoroughly and to take this opportunity to vote on the matters to be decided at the Special Meeting.

This Proxy Statement and the form of proxy card are also available at <http://CFBankonline.com/secproxy>.

VOTING PROCEDURES AND ATTENDING THE SPECIAL MEETING

WHO MAY ATTEND THE SPECIAL MEETING?

If you are a stockholder of record as of the close of business on July 25, 2014 (the “Record Date”), you are entitled to attend the Special Meeting. Please note, however, that if you hold your shares in street name (i.e., you are a beneficial owner of shares of Company common stock that are held by a broker, bank or other nominee), you will need proof of ownership to be admitted to the Special Meeting. See “HOW DO I VOTE” and “Must I VOTE BY proxy or may I vote in person at the SPECIAL meeting?” for additional information.

WHO IS ENTITLED TO VOTE?

You are entitled to vote your shares of common stock at the Special Meeting if the Company’s records show that you held your shares as of the close of business on the Record Date. As of the close of business on the Record Date, a total of [15,823,710] shares of common stock of the Company were outstanding and entitled to vote. Each share of common stock is entitled to one vote on each matter presented at the Special Meeting, except as described below.

As provided in the Company’s Certificate of Incorporation, as amended, record holders of common stock that is beneficially owned, either directly or indirectly, by a person (either a natural person or an entity) who, as of the close of business on the Record Date, beneficially owned a total number of shares of common stock in excess of 10% of the outstanding shares of common stock (the “10% limit”) are not entitled to vote any of their shares that are in excess of the 10% limit, and those shares are not treated as outstanding for voting purposes. For purposes of calculating the 10% limit, a person is deemed to beneficially own shares owned by an affiliate of, as well as by persons acting in concert with, such person. The Company’s Certificate of Incorporation, as amended, authorizes the Board of Directors (i) to make all determinations necessary to implement and apply the 10% limit, including determining whether persons are acting in concert, and (ii) to demand that any person who is reasonably believed to beneficially own stock in excess of the 10% limit supply information to the Company to enable the Board of Directors to implement and apply the 10% limit. As of the Record Date, the Company was not aware of any person who beneficially owned more than 10% of the Company’s outstanding common stock.

HOW DO I VOTE?

If you were a stockholder of record as of the Record Date, you may vote in person by attending the Special Meeting or you may vote by completing the enclosed proxy card and returning it signed and dated in the enclosed postage-paid envelope, or by following the procedures on the proxy card to vote your shares electronically. If you hold your shares through a broker, bank or other nominee, you are considered to hold your shares in “street name,” and you will receive separate instructions from the nominee describing how to vote your shares. Please note that if you hold your shares in street name and wish to vote those shares in person at the Special Meeting, you will need to obtain a legal proxy from the broker, bank or other nominee that holds those shares for you.

Must I VOTE BY proxy or may I vote in person at the SPECIAL meeting?

You may vote in person at the Special Meeting if you are a stockholder of record and you provide at the Special Meeting the identification required for admission. To be admitted at the Special Meeting, you may need to present personal photo identification. If your shares are held in street name (i.e., the shares are not registered in your name), you must (1) bring personal photo identification and proof of stock ownership to the Special Meeting to be admitted, and (2) obtain and bring with you to the Special Meeting a proxy from your broker, bank or other institution in whose name your shares are held in order to vote those shares at the Special Meeting. A copy of your account statement or a letter from your broker, bank or other institution reflecting the number of shares of common stock you owned as of the Record Date (July 25, 2014), will constitute adequate proof of stock ownership.

HOW WILL MY SHARES BE VOTED?

Shares of Company common stock which are represented by properly executed proxy cards that are received prior to the Special Meeting, and not subsequently revoked, will be voted in accordance with your instructions by your proxies. If you submit a valid proxy card prior to the Special Meeting but do not provide voting instructions, your proxies will vote your shares as recommended by the Board of Directors, except in the case of broker non-votes where applicable, as follows:

- “FOR” the approval of the issuance of shares of the Company’s common stock issuable upon the conversion of the Company’s Non-Cumulative Convertible Perpetual Preferred Stock, Series B (the “Series B Preferred Stock”), and the exercise of Warrants as required by and in accordance with NASDAQ Marketplace Rule 5635.

If any other matters are properly presented for voting at the Special Meeting, the persons appointed as proxies will vote on those matters, to the extent permitted by applicable law, in accordance with their best judgment. No appraisal or dissenters’ rights exist for any action proposed to be taken at the Special Meeting.

CAN I REVOKE OR CHANGE MY VOTE AFTER I SUBMIT MY PROXY?

You may revoke your proxy at any time before the vote is taken at the Special Meeting. To revoke your proxy, you must either advise the Corporate Secretary of the Company in writing before your shares have been voted at the Special Meeting, deliver to the Company another proxy that bears a later date, or attend the Special Meeting and vote your shares in person. Attendance at the Special Meeting will not, by itself, revoke your proxy. The last-dated proxy you submit (by any means) will supersede any previously submitted proxy. If you have instructed your broker, bank

or nominee to vote your shares, you must follow directions received from your broker, bank or nominee to change your vote.

WHAT CONSTITUTES A QUORUM FOR THE MEETING?

A quorum exists if a majority of the outstanding shares of common stock entitled to vote (after subtracting any shares in excess of the 10% limit) at the Special Meeting is present in person or represented by proxy at the Special Meeting. The Special Meeting will be held if a quorum exists at the Special Meeting. If you return valid proxy instructions or attend the Special Meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes of determining a quorum. If there are not sufficient shares present or represented by proxy at the Special Meeting to constitute a quorum or to approve or ratify any proposal at the time of the Special Meeting, the Special Meeting may be adjourned or postponed in order to permit the further solicitation of proxies.

WHAT VOTE IS REQUIRED?

Under NASDAQ Marketplace Rule 5635, the affirmative vote of a majority of the votes cast is required for stockholder approval of the issuance of shares of the Company's common stock issuable upon the conversion of the Series B Preferred Stock and the exercise of the related warrants to purchase common stock ("Warrants"). Abstentions and broker non-votes are not counted as votes cast and will not be counted in determining whether the proposal has been approved.

Certain directors and officers of the Company, who collectively owned approximately 17% of the issued and outstanding shares of common stock of the Company as of the Record Date, have executed voting agreements pursuant to which they have agreed to vote their shares in favor of such proposal.

WHO WILL COUNT THE VOTE?

The results of stockholder voting will be tabulated by Broadridge and certified by an Inspector of Election. The Board of Directors has designated John W. Helmsdoerfer, Executive Vice President and Chief Financial Officer of the Company, to act as the Inspector of Election for the meeting. Mr. Helmsdoerfer is an officer of the Company and an officer and employee of the Company's wholly-owned operating subsidiary, CFBank, a federally chartered savings association.

IS THE BOARD OF DIRECTORS AWARE OF ANY OTHER MATTERS THAT WILL BE PRESENTED AT THE SPECIAL MEETING?

The Company is not aware of any other matters to be presented at the Special Meeting. If any matters not described in this Proxy Statement are properly presented at the Special Meeting, the persons named in the proxy card will use their best judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the Special Meeting in order to solicit additional proxies.

WHO PAYS THE COST OF PROXY SOLICITATION?

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company's common stock. Directors, officers and regular employees of the Company may also solicit proxies personally or by telephone and will not receive additional compensation for these activities.

Delivery of Proxy Materials to Multiple Stockholders Sharing the Same Address

Unless we have received contrary instructions, we send a single copy of the proxy statement, notice of annual or special meeting and annual report, if applicable, to any household at which two or more stockholders reside if we believe the stockholders are members of the same family. Each stockholder in the household will continue to receive a separate proxy card. This process, known as "householding," reduces the volume of duplicate information received at

those households and helps reduce our expenses.

If you would like to receive your own set of the proxy statement and notice of annual or special meetings for this year or in future years, please follow the instructions described below:

If your shares are registered in your own name, please contact our transfer agent, Registrar and Transfer Company, and inform them of your request to revoke householding by calling them at 1-800-368-5948 or writing to them at Registrar and Transfer Company, 10 Commerce Drive, Cranford, NJ 07016. After receiving your revocation, we will promptly send individual documents to you.

If a bank, broker or other nominee holds your shares, please contact your bank, broker or other nominee directly.

If two or more stockholders residing in the same household individually receive copies of the annual report, proxy statement and notice of annual or special meeting and as a household wish to receive only one copy, you may contact our transfer agent at the address and telephone number listed above in the case of registered holders, or your bank, broker or other nominee directly if such bank, broker or other nominee holds your shares, and request that householding commence as soon as practicable.

-3-

WHO SHOULD I CALL IF I HAVE QUESTIONS?

If you have questions concerning this proxy solicitation, or the proposals to be considered at the Special Meeting, please call Thad Perry, President, at (614) 334-7979.

Important Notice Regarding the Availability of Proxy Materials

for the Special Meeting to Be Held on September 8, 2014:

The Company's Proxy Statement for the Special Meeting and the form of proxy card are available at <http://CFBankonline.com/secproxy>.

PROPOSAL NO. 1

APPROVAL OF ISSUANCE OF SHARES OF COMMON STOCK

BACKGROUND

Commencing in April 2014, the Company conducted a private placement of up to 480,000 shares of its 6.25% Non-Cumulative Convertible Perpetual Preferred Stock, Series B (“Series B Preferred Stock”) for an offering price of \$25.00 per share (the “Private Placement”). Pursuant to the Private Placement, the Company sold 270,000 shares of Series B Preferred Stock on May 12, 2014 for an aggregate offering price of \$6,750,000. The Series B Preferred Stock was sold by the Company with the assistance of McDonald Partners, LLC, as placement agent, on a best efforts basis. After payment of approximately \$272,250 in placement fees to McDonald Partners, LLC and approximately \$75,000 of other offering expenses, the Company’s net proceeds from its sale of the 270,000 shares of Series B Preferred Stock were approximately \$6,402,750.

For each share of Series B Preferred Stock sold in the Private Placement, the Company also agreed to issue, at no additional charge, a Warrant to purchase (i) 2.00 shares of common stock of the Company if the purchaser purchased less than \$700,000 (28,000 shares) of Series B Preferred Stock in the Private Placement, or (2) 3.25 shares of common stock if the purchaser purchased \$700,000 (28,000 shares) or more of Series B Preferred Stock in the Private Placement. Warrants to purchase an aggregate of 610,000 shares of common stock were issued by the Company to the purchasers of the 270,000 shares of Series B Preferred Stock sold on May 12, 2014. Subject to certain limitations described below under “DESCRIPTION OF THE WARRANTS,” the Warrants are exercisable for a period of approximately five (5) years expiring on July 15, 2019, at a cash purchase price of \$1.85 per share of common stock.

The offer and sale of the Series B Preferred Stock and Warrants were not registered under the Securities Act of 1933, as amended (the “Securities Act”), or under the securities laws of any state in reliance upon exemptions from registration thereunder, including the exemptions provided under Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder. The Series B Preferred Stock and Warrants were sold solely to “accredited investors” as defined in Rule 501(a) promulgated under the Securities Act.

Subject to the limitations described below, each share of the Series B Preferred Stock may be converted at any time, at the option of the holder, into approximately 14.29 shares of the Company's common stock, subject to anti-dilution adjustments set forth in the Certificate of Designations filed with the Secretary of State of Delaware on May 7, 2014 (the "Certificate of Designations"). The Certificate of Designations is attached hereto as Appendix A and is incorporated herein by reference. The conversion ratio was calculated using a conversion price of \$1.75, which was approximately 19.9% over the \$1.46 closing price for the Company's common stock on May 9, 2014 (the trading day immediately preceding the issuance of the Series B Preferred Stock). The initial conversion price of \$1.75 will adjust for stock dividends, stock splits and other corporate actions.

In addition, on or after the third anniversary of the date on which shares of Series B Preferred Stock were first issued (i.e., May 12, 2014), if the stockholders of the Company have previously approved the issuance of the shares of the common stock upon the conversion of the Series B Preferred Stock and exercise of the Warrants, the Company may at its option and subject to certain limitations described below, cause all of the Series B Preferred Stock to be converted into shares of common stock of the Company at the then-applicable conversion ratio.

Unless and until the Company obtains the approval of its stockholders for the issuance of the shares of common stock upon the conversion of the Series B Preferred Stock and the exercise of the Warrants, the Series B Preferred Stock cannot be converted into, and the Warrants cannot be exercised for, more than 19.9% of the total outstanding common stock of the Company or more than 19.9% of the total voting power of the Company's securities calculated as of immediately prior to the completion of the Private Placement. No purchaser of Series B Preferred Stock in the Private Placement is permitted to convert (or exercise Warrants for) more than its pro rata amount of such total determined based upon such purchaser's percentage ownership of the aggregate principal number of shares of

common stock issuable upon conversion of the Series B Preferred Stock and exercise of the Warrants. This restriction has been imposed to comply with NASDAQ Marketplace Rule 5635, which requires that issuances of shares in a private placement of securities listed on NASDAQ must be approved by stockholders when the aggregate voting power of such securities would equal or exceed 20% of the number of shares of common stock outstanding prior to the transaction.

REASONS FOR THE PRIVATE PLACEMENT

The Board of Directors of the Company determined that the Private Placement was advisable and in the best interests of the Company and its stockholders. The purpose of the Private Placement was to increase the capital levels of the Company and its wholly-owned subsidiary, CFBank, and to fund continued growth. The Company intends to use approximately \$293,000 of the net proceeds from the Private Placement to pay accrued interest, and bring all deferred interest payments current, on the Company's outstanding trust preferred securities. The remainder of the net proceeds from the Private Placement will be held by the Company and infused into CFBank as needed to increase capital levels and/or to support growth. Subject to obtaining any required approval from the Company's bank regulators, net proceeds from the Private Placement may also be used in the future for other general corporate purposes, which may include, without limitation, the funding of acquisitions or other business combinations and/or the pay down or refinancing of debt.

REASONS FOR REQUESTING STOCKHOLDER APPROVAL

The Company's common stock is listed on the NASDAQ Capital Market and, therefore, the Company is subject to the NASDAQ Marketplace Rules. NASDAQ Marketplace Rule 5635(d) requires that an issuer obtain stockholder approval prior to the issuance of common stock in a non-public offering if such issuance would equal 20% or more of the issuer's common stock or voting power outstanding before the issuance. Because the Company had a total of 15,823,710 shares of common stock outstanding prior to the Private Placement, the Company is restricted by NASDAQ Marketplace Rule 5635 from issuing 3,164,742 or more shares of common stock, or securities convertible into or exercisable for such shares of common stock, in a non-public offering without obtaining stockholder approval. The Company issued an aggregate of 270,000 shares of Series B Preferred Stock, which are convertible into 3,857,143 shares of common stock of the Company, and Warrants to purchase an aggregate of 610,000 shares of common stock of the Company, in the Private Placement. Because the 4,467,143 aggregate shares of common stock of the Company issuable upon the conversion of the Series B Preferred Stock and the exercise of the Warrants would exceed 20% of the Company's common stock outstanding, the convertibility of the Series B Preferred Stock and the exercisability of the Warrants is limited until such time as stockholder approval is obtained.

The Company agreed to call and hold this Special Meeting of stockholders, within 120 days following the first sale of Series B Preferred Stock on May 12, 2014, to present a proposal to approve the issuance of the shares of common stock upon the conversion of the Series B Preferred Stock and exercise of the Warrants in accordance with the requirements of NASDAQ Marketplace Rule 5635. If the required stockholder approval is not obtained at the Special

Meeting, the Company has agreed to call and hold additional meetings no less than every six months until the required stockholder approval is obtained.

VOTING AGREEMENTS

Certain directors and officers of the Company, who collectively owned approximately 17% of the issued and outstanding shares of common stock of the Company as of the Record Date, have executed voting agreements pursuant to which they have agreed to vote their shares in favor of Proposal No. 1.

POSSIBLE EFFECTS IF PROPOSAL NO. 1 IS APPROVED

If Proposal No. 1 is approved by stockholders, the 270,000 shares Series B Preferred Stock may be converted into an aggregate of 3,857,143 shares of our Series B Preferred Stock based on the initial common stock conversion price of \$1.75, and the Warrants may be exercised for an aggregate of 610,000 shares of our Series B Preferred Stock at an exercise price of \$1.85 per share of common stock. If stockholder approval is received, the rights and privileges associated with the common stock issuable upon conversion of the Series B Preferred Stock and exercise of the Warrants will be identical to the rights and privileges associated with the common stock held by the Company's existing common stockholders. Approval of Proposal No. 1 will also have the following consequences:

· Dilution. Upon full conversion of the Series B Preferred Stock and full exercise of the Warrants, the Company would issue an aggregate of 4,467,143 shares of common stock. As a result, the Company expects there to be a dilutive effect on the earnings per share of the Company's common stock upon the conversion of the Series B Preferred Stock and/or exercise of the Warrants. In addition, the Company's existing stockholders will incur a dilution to their voting power and will own a smaller percentage of the Company's outstanding capital stock. Assuming the conversion of all of the outstanding shares of Series B Preferred Stock and exercise in full of all of the Warrants, the Company's existing common stockholders would represent approximately 78% of the common stock after such conversion and exercise.

· Improved Balance Sheet and Capital Levels. The Company received aggregate gross proceeds of \$6,750,000 from the sale of the Series B Preferred Stock in the Private Placement. These proceeds strengthened the Company's balance sheet and increased the Company's and CFBank's regulatory capital levels. Upon the exercise of the Warrants for common stock, the Company will receive additional equity through payment of the exercise price, which will further strengthen our capital levels.

· Market Effects. Despite the existence of certain restrictions on transfer, the issuance of shares of common stock upon the conversion of the Series B Preferred Stock and the exercise of the Warrants could affect trading patterns and adversely affect the market price of the Company's common stock. Additionally, sales in the public market of the shares of common stock acquired upon conversion of the Series B Preferred Stock or exercise of the Warrants, or the perception that such sales could occur, could adversely affect the prevailing market price of the Company's common stock and impair the Company's ability to raise funds in additional stock financings.

POSSIBLE EFFECTS IF PROPOSAL NO. 1 IS NOT APPROVED

If Proposal No. 1 is not approved by stockholders, the Series B Preferred Stock cannot be converted into, and the Warrants cannot be exercised for, more than 19.9% of the total outstanding common stock of the Company or more than 19.9% of the total voting power of the Company's securities calculated as of immediately prior to the completion of the Private Placement. No purchaser of Series B Preferred Stock would be permitted to convert (or exercise Warrants for) more than its pro rata amount of such total determined based upon such purchaser's percentage ownership of the aggregate principal number of shares of common stock issuable upon conversion of the Series B Preferred Stock and exercise of the Warrants. Additionally, if Proposal No. 1 is not approved by the Company's stockholders, the Company will not have the right to convert the Series B Preferred Stock under the Series B Preferred Stock's mandatory conversion feature.

So long as the Series B Preferred Stock remains outstanding, the following will apply:

· Continuing Dividend Payments. The terms of the Series B Preferred Stock contemplate that the Company will pay dividends on the Series B Preferred Stock, if and when declared by the Board of Directors and on a non-cumulative basis, at an annual rate equal to 6.25% of the liquidation preference of \$25.00 per share. This is equivalent to \$1.5625 per share of Series B Preferred Stock per annum.

· Restrictions on Payment of Dividends on Common Stock. The Company will be prohibited from paying dividends on (other than dividends payable solely in shares), or repurchasing or redeeming (other than pursuant to an employee benefit plan or arrangement or under certain other limited circumstances), the common stock unless full dividends on the Series B Preferred Stock for the then-current dividend period have been paid or set aside for payment.

If the required stockholder approval is not obtained at the Special Meeting, the Company has agreed to call and hold additional meetings no less than every six months until the required stockholder approval is obtained. The Company would be required to bear the costs of preparing, printing and mailing proxy materials in connection with each such subsequent meeting.

-7-

DESCRIPTION OF THE SERIES B PREFERRED STOCK

This section summarizes specific terms and provisions of the Series B Preferred Stock. The description of the Series B Preferred Stock contained in this section is qualified in its entirety by the actual terms of the Series B Preferred Stock as set forth in the Certificate of Designations attached as Appendix A to this Proxy Statement.

General

The Series B Preferred Stock constitutes a single series of our preferred stock, consisting of 480,000 shares, \$0.01 par value per share, having a liquidation preference amount of \$25.00 per share. The Series B Preferred Stock has no stated maturity and is not subject to any sinking fund or other obligation of the Company to redeem or repurchase the Series B Preferred Stock.

Ranking

The Series B Preferred Stock will rank, with respect to the payment of dividends and distributions upon the liquidation, dissolution or winding up of the Company, senior to our common stock and each other class or series of capital stock we may issue in the future the terms of which do not expressly provide that it ranks on a parity with or senior to the Series B Preferred Stock as to dividend rights and rights upon the liquidation, dissolution or winding up of the Company. The Series B Preferred Stock will rank junior to existing and future debt obligations of the Company and junior to each class or series of capital stock we may issue in the future the terms of which expressly provide that it ranks senior to the Series B Preferred Stock. The Series B Preferred Stock will rank on parity with each other class or series of capital stock we may issue in the future the terms of which expressly provide that it ranks on a parity with the Series B Preferred Stock.

Dividend Rights

Dividends on the Series B Preferred Stock will be payable quarterly in arrears, if, when and as declared by our Board of Directors out of legally available funds at an annual rate of 6.25% on the liquidation preference of \$25.00 per share. This is equivalent to \$1.5625 per share of Series B Preferred Stock per annum. Dividends on the Series B Preferred Stock will be non-cumulative. If for any reason our Board of Directors does not declare cash dividends on the Series B Preferred Stock for a quarterly dividend period, we will have no obligation to pay any dividends for that period, whether or not our Board of Directors declares dividends on the Series B Preferred Stock for any subsequent dividend period. In the event that the Board of Directors declares a partial dividend for any quarterly dividend period, such partial dividend will be distributed to the holders of the Series B Preferred Stock on a pro rata basis.

If, when and as declared by our Board of Directors, dividends will be paid on a quarterly basis, in arrears, beginning on July 15, 2014. Each period from and including a dividend payment date (or the date of the issuance of the Series B Preferred Stock) to but excluding the following dividend payment date is referred to as a dividend period. Dividends payable for each dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. If a scheduled dividend payment date falls on a day that is not a business day, the dividend will be paid on the next business day as if it were paid on the scheduled dividend payment date, and no interest or other amount will accrue on the dividend so payable for the period from and after that dividend payment date to the date the dividend is paid.

So long as the Series B Preferred Stock remains outstanding, the Company will be prohibited from paying dividends on (other than dividends payable solely in shares), or repurchasing or redeeming (other than pursuant to an employee benefit plan or arrangement or under certain other limited circumstances), other securities that rank junior to the Series B Preferred Stock unless full dividends on the Series B Preferred Stock for the then-current dividend period have been paid or set aside for payment. Currently, the only class of securities that ranks junior to the Series B Preferred Stock is the common stock.

Liquidation Preference

-8-

In the event of our liquidation, dissolution or winding up, holders of the Series B Preferred Stock will be entitled to receive, out of our assets available for distribution to stockholders, before any distribution of assets is made to the holders of our common stock or any securities that rank junior with respect to distributions (but subject to the prior rights of holders of any senior stock), an amount equal to \$25.00 per share, plus dividends declared and unpaid, if any, for any prior dividend periods (if we have received the prior approval of the FRB), but without accumulation of any undeclared dividends. The amount that holders of the Series B Preferred Stock will be entitled to receive in the event of our liquidation, dissolution or winding up is subject to adjustment whenever there is a share split, combination, reclassification or other similar event involving the Series B Preferred Stock, as determined by the Board of Directors.

If, upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, the amounts payable related to the Series B Preferred Stock and any parity stock shall be insufficient to pay in full the amount to which such holders are entitled, the holders of the Series B Preferred Stock and parity stock will share ratably in any distribution of assets in proportion to the full respective distributable amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Series B Preferred Stock will not be entitled to any further participation in any distribution of our assets. All distributions made with respect to the Series B Preferred Stock in connection with any liquidation, dissolution or winding up will be made pro rata to the holders of Series B Preferred Stock.

Neither the sale, lease, exchange or conveyance for cash, shares of stock, other securities or other consideration of all or substantially all of the assets or business of the Company (other than in connection with the voluntary or involuntary liquidation, dissolution or winding up of the Company) nor the merger, consolidation or share exchange of the Company into or with any other person will be deemed to be a liquidation, dissolution or winding up of the Company for purposes of the liquidation rights of the Series B Preferred Stock.

No Redemptions

The Series B Preferred Stock is not redeemable by the Company.

Conversion Rights

Optional Conversion. Subject to the limitations set forth below, each share of the Series B Preferred Stock may be converted at any time, at the option of the holder, into approximately 14.29 shares of our Common Stock. The conversion ratio was calculated using a conversion price of \$1.75 per share of common stock. However, until the Company obtains the approval of its stockholders for the issuance of the shares of common stock upon the conversion of the Series B Preferred Stock and/or the exercise of the Warrants, the Series B Preferred Stock cannot be converted into, and the Warrants cannot be exercised for, more than 19.9% of the total outstanding common stock of the Company or more than 19.9% of the total voting power of the Company's securities as of immediately prior to the Private Placement. No purchaser of the Series B Preferred Stock in the Private Placement will be permitted to convert (or exercise Warrants for) more than such purchaser's pro rata amount of such total determined based upon such purchaser's percentage ownership of the aggregate number of shares of common stock issuable upon conversion of the Series B Preferred Stock and exercise of the Warrants.

Subject to the limitation on conversion discussed above, holders of Series B Preferred Stock may exercise conversion rights by (i) surrendering the certificates representing the shares of Series B Preferred Stock to be converted to the Company's conversion agent, (ii) submitting a properly completed letter of transmittal specifying the number of shares

of Series B Preferred Stock that the holder wishes to convert and the names and addresses in which the shares of common stock are to be issued, and (iii) if required by the Company or applicable law, furnishing appropriate endorsements and transfer documents and paying applicable transfer or similar taxes.

Mandatory Conversion. Subject to the prior receipt of stockholder approval as described above, on or after the third anniversary of the date on which shares of Series B Preferred Stock are first issued, we may, at our option and subject to the limitations described below, cause all of the Series B Preferred Stock to be converted into shares of common stock at the then-applicable conversion ratio. We may exercise our conversion right if for 20 trading days within any period of 30 consecutive trading days, including the last trading day of such period, ending on the trading day preceding the date we give notice of mandatory conversion, the closing price of the common stock exceeds 135% of the then-applicable conversion price of the Series B Preferred Stock.

-9-

The initial conversion price of \$1.75 will adjust for stock dividends, stock splits and other corporate actions affecting the common stock. If we exercise our conversion right, each share of Series B Preferred Stock subject to the mandatory conversion will be automatically converted into approximately 14.29 shares of common stock.

On any mandatory conversion date, the Company will provide notice of the mandatory conversion date to holders of the Series B Preferred Stock along with a statement of the number of shares of common stock to be issued upon the conversion and, if certificates are to be issued, the place where certificates for the Series B Preferred Stock may be surrendered.

Fractional Shares. No fractional shares of common stock shall be issued upon conversion of the Series B Preferred Stock. Upon any conversion, all fractional share interests to which a holder may be entitled shall be aggregated into whole shares of common stock with cash being paid for any fractional interest that may remain after such aggregation. The Company will pay cash for the fractional share based on the closing stock price of the common stock on the trading date preceding conversion.

Adjustments to Conversion Ratio and Conversion Price. The conversion ratio and the conversion price will be proportionately adjusted from time to time for stock splits, stock dividends and other reclassifications of our common stock, as described in the Certificate of Designations attached hereto as Appendix A. In addition, the liquidation preference of the Series B Preferred Stock will be adjusted whenever there occurs a stock split, combination, reclassification or other similar event involving the Series B Preferred Stock, which will also result in a corresponding adjustment to the conversion ratio.

Voting Rights

The holders of the Series B Preferred Stock will not have voting rights, except as specifically required by Delaware law and as set forth in the Certificate of Designations attached hereto as Appendix A. In any matter in which the Series B Preferred Stock may vote, each share of Series B Preferred Stock will represent one vote.

So long as any shares of Series B Preferred Stock remain outstanding, unless a greater percentage is required by law, the affirmative vote or consent of the holders of at least two-thirds of all of the shares of Series B Preferred Stock at the time outstanding, voting separately as a class, will be required to:

- amend, alter or repeal any provision of our Certificate of Incorporation (including the Certificate of Designations creating the Series B Preferred Stock), if the amendment, alteration or repeal would materially and adversely affect the rights, preferences, powers or privileges of the Series B Preferred Stock;
- create, authorize, issue or increase the authorized or issued amount of any class or series of any of our equity securities, or any warrants, options or other rights convertible or exchangeable into any class or series of any of our equity securities, which would constitute senior stock or parity stock or reclassify any authorized stock of the Company into any such stock, or create, authorize or issue any obligation or security convertible into, exchangeable or exercisable for, or evidencing the right to purchase any such stock; or
- enter into or consummate any (i) reclassification of the outstanding shares of common stock (other than a change in par value, or from no par value to par value, or from par value to no par value), (ii) consolidation, merger or share exchange of the Company with or into another person or entity or any merger, consolidation or share exchange of another person or entity with or into the Company (other than a consolidation, merger or share exchange in which the Company is the resulting or surviving entity and which does not result in any reclassification of the outstanding shares of common stock), or (ii) sale, lease or other disposition to another person or entity of all or substantially all of the assets of the Company (computed on a consolidated basis), other than to one or more of the Company's subsidiaries; provided, however, that the holders of Series B Preferred Stock will have no right to vote regarding the Company's entry into or consummation of such an event if, upon the consummation of such event, (A) the Series B

Preferred Stock remains outstanding or, in the case of any such merger or consolidation with respect to which the Company is not the resulting or surviving entity, is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (B) such Series B Preferred Stock

-10-

remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, taken as a whole, as are not materially less favorable to the holders thereof than the rights, preferences, privileges and voting powers of the Series B Preferred Stock, taken as a whole.

Except as otherwise required by law, we may, without the consent of any holder of Series B Preferred Stock, (i) increase the amount of authorized shares of Series B Preferred Stock or issue any additional shares of Series B Preferred Stock or (ii) authorize, increase the authorized amount of, or issue parity stock (provided that dividend rights are noncumulative) and junior stock, provided that any such parity stock or junior stock does not rank senior to the Series B Preferred Stock as to dividend rights or rights upon liquidation, dissolution or winding up of the Company.

DESCRIPTION OF THE WARRANTS

General

Each purchaser of Series B Preferred Stock in the Private Placement received, at no additional charge, a Warrant to purchase (i) 2.00 shares of common stock if the purchaser purchases less than \$700,000 (28,000 shares) of Series B Preferred Stock in the Private Placement or (ii) 3.25 shares of common stock if the purchaser purchased \$700,000 (28,000 shares) or more of Series B Preferred Stock in the Private Placement. Warrants to purchase a total of 610,000 shares of common stock were issued to purchasers in the Private Placement.

Term

The Warrants are exercisable for a period of approximately five (5) years expiring at 5:00 p.m., Eastern Time, on July 15, 2019.

Exercise Price and Adjustments

The Warrants have an exercise price of \$1.85 per share of common stock. The number of shares of common stock for which Warrants may be exercised and the exercise price applicable to the Warrants will be proportionately adjusted in the event that the Company pays stock dividends or makes distributions of common stock, or subdivides, combines or reclassifies its outstanding common stock, such as in a stock split or reverse stock split. The exercise price is payable only by cash or check.

Fractional Shares

No fractional shares of common stock will be issued upon the exercise of the Warrants or as a consequence of any adjustment pursuant to the Warrants. All shares of common stock, including fractions, issuable upon exercise of one or more Warrants will be aggregated for purposes of determining whether the exercise would result in the issuance of any fractional share of common stock. If, after aggregation, the exercise would result in the issuance of a fractional share of common stock, the Company will, in lieu of issuance of such fractional share, pay to the holder cash in an amount equal to such fraction multiplied by the closing price of the common stock on the most recent trading day immediately preceding the exercise.

Voting Rights

Prior to exercise of the Warrants, the Warrants will not entitle the holders thereof to any voting rights or other rights as a shareholder of the Company, except that the holders of the Warrants will have the right to receive certain notices from the Company.

Reorganization, Consolidation or Merger

In the event of a reorganization of the Company, the consolidation or merger of the Company with or into another entity or the conveyance by the Company of all or substantially all of its assets to another entity (a “Business Combination”), then, and in each such case, the Company will mail a notice to holders of the Warrants at least 20 days prior to the record date for determining eligible holders entitled to receive the securities or property to be

-11-

distributed upon the consummation of such Business Combination. The notice will also provide in reasonable detail the terms and a description of the Business Combination and indicate the last date on which holders of the Warrants may exercise the Warrants in order to receive such securities or property. As long as the required notice is provided to holders of the Warrants, any Warrants not exercised prior to the deadline for exercising the Warrants as set forth in the notice will be cancelled and become null and void on the effective date of the Business Combination.

Registration Rights

The Company has agreed to provide holders of the Warrants with certain registration rights with respect to the shares of common stock issued or issuable upon exercise of the Warrants, in accordance with the terms of a Registration Rights Agreement. Pursuant to the Registration Rights Agreement, the Company has agreed to file with the SEC a shelf registration statement to register the resale of the shares of common stock issuable upon exercise of the Warrants (“Registrable Securities”) under the Securities Act, and to use its reasonable best efforts to cause such shelf registration statement to be declared or become effective and to keep such shelf registration statement continuously effective and usable for resale of such Registrable Securities until such time as no such Registrable Securities are remaining, or the earlier termination of the Registration Rights Agreement as described below. The Company’s filing of such shelf registration statement, however, will only be triggered if and when the closing price of the common stock exceeds the \$1.85 exercise price of the Warrants (as adjusted pursuant to the Warrant) for at least 20 trading days within any period of 30 consecutive trading days. The Company’s obligation to file a shelf registration statement under the terms of the Registration Rights Agreement is conditioned upon the Company’s eligibility to file a registration statement on Form S-3, as well as certain other limitations and conditions set forth in the Registration Rights Agreement.

Pursuant to the Registration Rights Agreement, the Company will also agree to provide certain “piggyback” registration rights to holders of the Warrants. Subject to certain conditions described in the Registration Rights Agreement, if during any period when an effective shelf registration statement is not available, the Company proposes to register any of its equity securities, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company agrees to notify the holders of the Warrants of its intention to effect such a registration and will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within 10 business days after the date of the Company’s notice.

The Company will pay all registration expenses incurred in connection with any registration, qualification or compliance with the Registration Rights Agreement, except that any sellers of Registrable Securities will be responsible for any applicable selling commissions, discounts and stock transfer taxes and certain other selling expenses described in the Registration Rights Agreement.

The Registration Rights Agreement, and the obligations of the Company thereunder, will terminate upon the earlier of January 15, 2020, or such time as there are no Registrable Securities remaining.

PRO FORMA DATA

The unaudited pro forma consolidated balance sheets as of March 31, 2014 and the unaudited pro forma earnings per share and book value per share tables have been prepared by management to illustrate the impact of (i) the issuance of the Series B Preferred Stock and Warrants in the Private Placement and (ii) the conversion of all of the shares of Series B Preferred Stock and exercise of all of the Warrants. Since neither the Series B Preferred Stock nor the Warrants had been issued at the time of the balance sheet presented, the data is only presented for illustrative purposes.

		Adjustments	Pro Forma	Adjustments For Conversion	
Balance Sheet		For Issuance of Series B Preferred	No Conversion or Exercise (2)	of Series B Preferred Stock and Exercise of Warrants (3)	Pro Forma Fully Converted and Exercised (unaudited)
March 31, 2014	Actual (unaudited)	Stock and Warrants (1)	(unaudited)		
(Dollars in thousands, except per share amounts)					
Assets					
Cash and cash equivalents	\$ 23,064	\$ 6,403	\$ 29,467	\$ 1,129	\$ 30,596
Investment securities	9,074	-	9,074		9,074
Loans, net of allowance for loan loss	208,902	-	208,902		208,902
Other assets	17,949	-	17,949		17,949
Total assets	\$ 258,989	\$ 6,403	\$ 265,392	\$ 1,129	\$ 266,521
Liabilities and Shareholder's Equity					

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	\$		\$		\$
Deposits	215,688	-	215,688	-	215,688
Borrowings	13,000	-	13,000	-	13,000
Subordinated Debentures	5,155	-	5,155	-	5,155
Other liabilities	2,446	-	2,446	-	2,446
	\$		\$		\$
Total liabilities	236,289	-	236,289	-	236,289

Series B Preferred Stock, \$0.01

Par	-	3	3	(3)	-
Common stock	159	-	159	45	204
Additional paid in capital	48,141	6,400	54,541	1,087	55,628
Retained earnings	(22,429)	-	(22,429)	-	(22,429)
Accumulated other comprehensive income	74	-	74	-	74
Treasury stock	(3,245)	-	(3,245)	-	(3,245)
Total stockholders' equity	22,700	6,403	29,103	1,129	30,232
Total liabilities and stockholders' equity	\$ 258,989	\$ 6,403	\$ 265,392	\$ 1,129	\$ 266,521

Per Share of Common Stock

Shares of common stock outstanding	15,823,710		15,823,710	4,467,143	20,290,853
Book value per share of common stock	\$ 1.43		\$ 1.43		\$ 1.49

(1) Represents the net proceeds from the issuance of 270,000 shares of Series B Preferred Stock and Warrants to purchase 610,000 shares of common stock of the Company.

(2) Represents the pro forma balance sheet following the issuance of the Series B Preferred Stock and Warrants but prior to the exercise of any shares of Series B Preferred Stock or conversion of any Warrants.

(3) Reflects the conversion of all of the shares of Series B Preferred Stock and exercise of all of the Warrants for an aggregate of 4,467,143 shares of common stock.

The following tables present the Company's unaudited earnings per share for the three months ended March 31, 2014, and as adjusted for (i) the issuance of 270,000 shares of Series B Preferred Stock and Warrants to purchase 610,000 shares of common stock of the Company in the Private Placement and (ii) the conversion of all of the shares of Series B Preferred Stock and the exercise of all of the Warrants.

Pro forma earnings per share calculations in the top chart assume that the Series B Preferred Stock were issued on January 1, 2014, but neither the Series B Preferred Stock nor the Warrants were converted into shares of common stock; therefore, a dividend was paid on the Series B Preferred Stock.

The bottom chart represents the effects of the issuance and conversion of all the Series B Preferred Stock and the exercise of all Warrants into shares of common stock. This chart assumes that the Series B Preferred Shares and the Warrants were issued on January 1, 2014, and both the Series B Preferred Stock and the warrants were converted into common shares of Common Stock on the same day; therefore, no dividend was paid on the Series B Preferred Stock.

This analysis provides information on the effects of the preferred dividend payments on earnings available to common stockholders, and the effects of the conversion of all of the shares of Series B Preferred Stock and the exercise of all Warrants on earnings per share. Since the Series B Preferred Stock was not issued during this time period, it is being shown for illustrative purposes only.

For Three Months Ending March 31, 2014			
	Actual	Adjustment For Issuance of Series B Preferred Stock and Warrants (1)	Pro Forma No Conversion or Exercise (2)
(Dollars in thousands, except per share amounts)	(unaudited)		(unaudited)
Net income available to common shareholders	(\$214)	(\$105)	(\$319)
Basic net income per share	(\$0.014)	(\$0.007)	(\$0.020)

Weighted average common shares outstanding	15,823,710	-	15,823,710
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(1) Adjustment represents the dividend paid to holders of Series B Preferred Stock, reducing earnings available to common shareholders.

(2) Assumes no conversion of the Series B Preferred Stock or exercise of Warrants.

	For Three Months Ending March 31, 2014		
	Actual	Adjustment for Conversion and Exercise	Pro Forma Full Conversion and Exercise
(Dollars in thousands, except per share amounts)	(unaudited)	(unaudited)(1)(2)	(unaudited)
Net income available to common shareholders	(\$214)	-	(\$214)
Basic net income per share	(\$0.014)	-	(\$0.011)
Weighted average common shares outstanding	15,823,710	4,467,143	20,290,853

(1) Assumes that no dividend is declared/paid on the Series B Preferred Stock as a result of conversion into shares of common

stock.

(2) Increase in outstanding shares of common stock is due to the conversion of the Series B Preferred Stock and exercise of the Warrants

-14-

INTERESTS OF DIRECTORS AND EXECUTIVE OFFICERS

Certain of the Company's directors and executive officers, together with their affiliates, purchased an aggregate of 52,200 shares of Series B Preferred Stock, and were issued Warrants to purchase an aggregate of 139,400 shares of common stock, in the Private Placement. See "BENEFICIAL OWNERSHIP OF STOCK" beginning on page ___ of this Proxy Statement. The purchase price paid by the Company's directors and executive officers, together with their affiliates, was \$25.00 per share, the same price paid by all other persons who purchased shares of Series B Preferred Stock in this Private Placement. As a result of their purchase of Series B Preferred Stock and Warrants in the Private Placement, these directors and executive officers have an interest in the outcome of Proposal No. 1.

RECOMMENDATION AND VOTE

Under NASDAQ Marketplace Rule 5635, the affirmative vote of a majority of the votes cast is required for stockholder approval of the proposal to approve the issuance of shares of the Company's common stock issuable upon conversion of the Series B Preferred Stock and exercise of the Warrants. Abstentions and broker non-votes are not counted as votes cast and will not be counted in determining whether the proposal has been approved.

The Board of Directors recommends that you vote "FOR" approval of issuance of shares of the Company's common stock issuable upon conversion of the Series B Preferred Stock and exercise of the Warrants.

BENEFICIAL OWNERSHIP OF STOCK

The following table provides information as of [June 30], 2014 about the persons known by the Company to be beneficial owners of more than 5% of the Company's outstanding common stock (excluding Edward W. Cochran, whose beneficial ownership is disclosed in the following table for directors and named executive officers of the Company). A person may be considered to beneficially own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investment power. A provision in the Company's Certificate of Incorporation eliminates the ability of any beneficial owner of more than 10% of the Company's outstanding common stock to vote any shares in excess of this 10% limit.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
MacNealy Hoover Investment Management, Inc. (1) Harry C.C. MacNealy 200 Market Avenue North, Suite 200 Canton, OH 44702	1,333,914	8.4%
Wellington Management Company, LLP (2) 75 State Street Boston, MA 02109	1,342,735	8.5%

(1) Based on information contained in a statement on Schedule 13G dated February 10, 2014, MacNealy Hoover Investment Management, Inc., has shared voting power and shared investment power over 1,333,914 shares of the outstanding common stock of the Company.

(2) Based on information contained in a statement on Schedule 13G dated February 14, 2013, Wellington Management, Inc. has shared voting power and shared investment power over 1,342,735 shares of the outstanding common stock of the Company.

-17-

The following table sets forth information regarding the beneficial ownership, as of [June 30], 2014, for each of the current directors and executive officers of the Company and all directors and executive officers of the Company as a group of (i) the Company's common stock (excluding any conversion of Series B Preferred Stock or exercise of Warrants), (ii) the Company's Series B Preferred Stock and (iii) the Company's common stock (assuming conversion of all shares of Series B Preferred Stock and exercise of all Warrants held by each director or executive officer).

Group (1)	Stock	Placement (2)	Stock (4)	Conversion (5)	
Name of Beneficial Owner or Number of Persons in Group (1)	Amount of Beneficial Ownership of Common Stock	Percent of Common Stock Before Private Placement (2)	Shares of Series B Preferred Stock Purchased in the Private Placement (3)	Percent of Series B Preferred Stock (4)	Percent of Common Stock After Full Conversion (5)
Thomas P. Ash (6)	24,629	*	400	*	*
Edward W. Cochran (7)	1,070,000	6.8%	28,000	5.8%	9.6%
James H. Frauenberg II (8)	336,666	2.1%	4,000	*	2.5%
John W. Helmsdoerfer, Jr. (9)	11,000	*	800	*	*
Robert E. Hoeweler (10)	100,333	*	1,000	*	*
Robert H. Milbourne (11)	3,333	*	2,000	*	*
Tim T. O'Dell (12)	391,000	2.5%	8,000	1.7%	3.3%
Thad R. Perry (13)	698,333	4.4%	8,000	1.7%	5.2%
All current executive officers and directors as a group (8)					

persons)	2,635,294	16.6%	52,200	10.9%	17.3%
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* Indicates beneficial ownership of less than one percent of the outstanding class of stock.

- (1) Unless otherwise indicated, each executive officer or director has sole voting and investment power with respect to all of the shares reflected in the table for such executive officer or director. The mailing address of each of the executive officers and directors of the Company is 7000 North High Street, Worthington, Ohio 43085.
- (2) Percent of Common Stock Before Private Placement is computed based on the sum of (a) 15,823,710 shares of Common Stock outstanding on [June 30], 2014, and (b) the number of shares of Common Stock, if any, as to which the named person or group has the right to acquire beneficial ownership upon the exercise of options which are currently exercisable or will first become exercisable within 60 days after [June 30], 2014.
- (3) Represents the number of shares of Series B Preferred Stock as to which the named person or group purchased in the Private Placement.
- (4) Percent of Series B Preferred Stock is computed assuming the sale and issuance by the Company of [the maximum of 480,000] shares of Series B Preferred Stock in the Private Placement.
- (5) Computed on a pro forma basis based on the sum of (a) 15,823,710 shares of Common Stock outstanding on [June 30], 2014, (b) the number of shares of Common Stock, if any, as to which the named person or group has the right to acquire beneficial ownership upon the exercise of options which are currently exercisable or will first become exercisable within 60 days after [June 30], 2014, and (c) the number of shares of Common Stock, if any, as to which the named person or group has the right to acquire beneficial ownership upon the conversion of shares of Series B Preferred Stock and the exercise of Warrants. Shares of Common Stock issuable upon conversion of Series B Preferred Stock and exercise of Warrants are reported based upon the assumption that Proposal No. 1 is approved at the Special Meeting and, therefore, conversion of the Series B Preferred Stock and exercise of the Warrants is not subject to limitation under NASDAQ Marketplace Rule 5635.
- (6) Includes options to acquire 3,333 shares of Common Stock which are currently exercisable or will first become exercisable within 60 days after [June 30], 2014, Warrants to acquire 800 shares of Common Stock, and shares of Series B Preferred Stock convertible into an aggregate of 5,714 shares of Common Stock.
- (7) Includes options to acquire 3,333 shares of Common Stock which are currently exercisable or will first become exercisable within 60 days after [June 30], 2014, Warrants to acquire 91,000 shares of Common Stock, and shares of

-18-

Series B Preferred Stock convertible into an aggregate of 400,000 shares of Common Stock.

- (8) Includes options to acquire 3,333 shares of Common Stock which are currently exercisable or will first become exercisable within 60 days after [June 30], 2014, Warrants to acquire 8,000 shares of Common Stock, and shares of Series B Preferred Stock convertible into an aggregate of 57,143 shares of Common Stock.
- (9) Includes options to acquire 10,000 shares of Common Stock which are currently exercisable or will first become exercisable within 60 days after [June 30], 2014, Warrants to acquire 1,600 shares of Common Stock, and shares of Series B Preferred Stock convertible into an aggregate of 11,429 shares of Common Stock.